



Joint Legislative Audit Committee

Office of the Auditor General



FINANCIAL AUDIT REPORT CALIFORNIA COASTAL COMMISSION YEAR ENDED JUNE 30, 1977

The regulations of the Federal Office of Revenue Sharing require governments receiving revenue sharing funds to have audits of their financial statements not less than once every three years. This audit assists in fulfilling the audit requirements necessary to continue California's eligibility for federal revenue sharing funds.

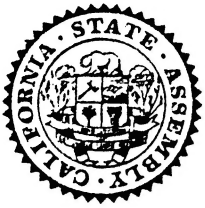
Our examination was made in accordance with generally accepted auditing standards and included studying and evaluating the Department's system of internal control. This study and evaluation disclosed several conditions which we believe to be weaknesses and were considered in determining the nature, timing, and extent of our audit tests. Presentation of these conditions, however, does not modify our opinion on the financial statements.

**REPORT TO THE
CALIFORNIA LEGISLATURE**

REPORT OF THE
JOINT REVENUE SHARING TASK FORCE
TO THE
JOINT LEGISLATIVE AUDIT COMMITTEE
AND THE
DEPARTMENT OF FINANCE

809

FINANCIAL AUDIT REPORT
CALIFORNIA COASTAL COMMISSION
YEAR ENDED JUNE 30, 1977



CHAIRMAN
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Joint Legislative Audit Committee

OFFICE OF THE AUDITOR GENERAL

California Legislature

RICHARD ROBINSON
CHAIRMAN



VICE CHAIRMAN
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SENATORS
PAUL CARPENTER
CYPRESS

February 21, 1979

809

The Honorable Speaker of the Assembly
The Honorable President pro Tempore of the Senate
The Honorable Members of the Senate and the
Assembly of the Legislature of California

Members of the Legislature:

Your Joint Legislative Audit Committee respectfully forwards the Auditor General's financial audit of the California Coastal Commission.

The auditors are Robert L. Hamric, CPA; William L. Woodward, CPA; and Phyllis Ries.

Sincerely,

RICHARD ROBINSON
Assemblyman, 72nd District
Chairman, Joint Legislative
Audit Committee

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California Coastal Commission

INTRODUCTION

In compliance with regulations promulgated by the federal Office of Revenue Sharing, we have conducted a financial audit of the California Coastal Commission. This audit was conducted under the authority vested in the Auditor General by Section 10527 of the Government Code and in the Department of Finance by Section 13294 of the Government Code.

The principal objectives of the California Coastal Commission are to oversee the State's coastal management program and to implement the policies established by the Legislature under the California Coastal Act of 1976. These policies form the basis on which coastal conservation and development decisions are to be made. The policies deal with public access to the coast, coastal recreation, the California marine environment, coastal land resources and coastal development of various types including power plant and other energy installations. The California Coastal Act of 1976 created six regional coastal commissions and charged them with numerous responsibilities in carrying out the objective of the Act under the standards and guidelines adopted by the California Coastal Commission. Each regional commission will terminate after completing its assigned responsibilities or January 1, 1981, whichever is the earlier date.

The programs of the California Coastal Commission are supported by the Bagley Conservation Fund and the state General Fund. In 1972, \$5 million from the Bagley Conservation Fund was appropriated for the support of the Commission. Through December 31, 1976, revenues collected

by the former California Coastal Zone Commission and the regional coastal zone conservation commissions were credited to the Bagley Conservation Fund. The Legislature has augmented the Bagley Conservation Fund several times by appropriating money from the General Fund. For fiscal year 1976-1977, the Legislature appropriated funds from the Bagley Conservation Fund and the General Fund. In future years support is to be appropriated solely from the General Fund. All revenues collected from January 1, 1977 are applied to the General Fund.

AUDITOR'S OPINION

To the Joint Legislative Audit Committee of the California Legislature
and the Department of Finance:

We have examined the combined balance sheet of the California Coastal Commission as of June 30, 1977, and the related statements of revenues, expenditures and changes in operating clearing and fund balance for the year then ended. Our examination was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, these financial statements present fairly the financial position of the California Coastal Commission at June 30, 1977, and the results of its operations and the changes in its financial position for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

The column amounts on the accompanying combined balance sheet captioned "Total - Memorandum Only" for June 30, 1977, are not necessary for a fair presentation of the financial statements, but are presented as additional analytical data and in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The column amounts on the accompanying combined balance sheet and statement of revenues, expenditures and changes in operating clearing and fund balance for the year ended June 30, 1976, which are presented for comparative purposes only, were not audited by us and accordingly we do not express an opinion on them.

In connection with our examination we also made a study and evaluation of the California Coastal Commission's system of internal accounting control. Our findings are set forth under the heading "Comments and Recommendations."

Revenue Sharing Task Force



Wesley E. Voss
Assistant Auditor General

Date: June 23, 1978

Staff: Robert L. Hamric, CPA
William L. Woodward, CPA
Phyllis Ries

CALIFORNIA COASTAL COMMISSION
COMBINED BALANCE SHEET
ALL FUND TYPES AND ACCOUNT GROUPS
JUNE 30, 1977
(With Unaudited Amounts for 1976)

	Governmental Funds		Fiduciary Fund	Account Group	TOTAL (Memorandum Only)	
	Conservation Fund	General Fund	Special Deposit Fund		June 30, 1977	June 30, 1976
<u>ASSETS</u>						
Cash	\$ 77,333	\$ -	\$ 3,689	\$ -	\$ 81,022	\$ 147,062
Accounts Receivable	65,479	-	-	-	65,479	7,216
Expense Advances to Employees	9,323	-	-	-	9,323	7,563
Equipment	-	-	-	65,381	65,381	38,431
TOTAL ASSETS	\$ 152,135	\$ -	\$ 3,689	\$ 65,381	\$ 221,205	\$ 200,272
<u>LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY</u>						
Liabilities:						
Accounts Payable (Note 3)	\$ 469,623	\$ 48,281	\$ -	\$ -	\$ 517,904	\$ 248,955
Encumbrances Outstanding (Note 4)	140,573	-	-	-	140,573	-
Fund Equity:						
Investment in General Fixed Assets	-	-	-	65,381	65,381	38,431
Operating Clearing (Note 5)	(458,061)	(48,281)	-	(506,342)	(506,342)	(87,114)
Fund Balance	-	-	3,689	-	3,689	-
TOTAL FUND EQUITY	(458,061)	(48,281)	3,689	65,381	(437,272)	(48,683)
TOTAL LIABILITIES, ENCUMBRANCES OUTSTANDING AND FUND EQUITY	\$ 152,135	\$ -	\$ 3,689	\$ 65,381	\$ 221,205	\$ 200,272

The notes to the financial statements are an integral part of this statement.

CALIFORNIA COASTAL COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN OPERATING CLEARING
BUDGETED AND ACTUAL
BAGLEY CONSERVATION FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977
(With Unaudited Amounts for 1976)

	1977			1976
	Budget As Adjusted	Actual	Over (Under) Budget	Actual
<u>Sources of Financial Resources</u>				
Revenues:				
Permit Application Fees	\$ 129,697	\$ 258,829	\$ 129,132	\$ 461,312
Total Revenues ^{a/}				
Other Sources:				
Appropriations	1,886,759	1,886,759	-	525,977
Transfers from General Fund	1,880,365	1,433,952	(446,413)	707,254
Federal Funds	745,886	692,220	(53,666)	1,353,017
Total Sources of Financial Resources	<u>\$4,642,707</u>	<u>4,271,760</u>	<u>\$ (370,947)</u>	<u>3,047,560</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Personal Services	\$2,469,106	2,469,106	\$ -	1,971,142
General Expense	344,686	344,686	-	243,587
Printing	43,599	43,599	-	94,774
Communications	126,199	126,199	-	124,161
Travel-In-State	215,123	215,123	-	170,802
Travel-Out-of-State	6,284	6,284	-	2,851
Facilities Operation	185,203	185,203	-	133,070
Consultant Services	886,576	886,576	-	268,726
Administrative and Service Contracts	324,729	324,729	-	73,827
Equipment	41,202	41,202	-	1,739
Total Uses of Financial Resources	<u>\$4,642,707</u>	<u>4,642,707</u>	<u>\$ -</u>	<u>3,084,679</u>
Net Increase (Decrease) in Operating Clearing During the Year		(370,947)		(37,119)
Operating Clearing - July 1		(87,114)		(49,995)
Operating Clearing - June 30 (Note 5)		<u>\$ (458,061)</u>		<u>\$ (87,114)</u>

^{a/} Revenues are not budgeted in the legislative budget bill. The amounts shown on this statement are agency budgeted revenue amounts that are shown in the Governor's Annual Budget.

The notes to the financial statements are an integral part of this statement.

CALIFORNIA COASTAL COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN OPERATING CLEARING
BUDGETED AND ACTUAL
GENERAL FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977
(With Unaudited Amounts for 1976)

	1977			1976
	<u>Budget As Adjusted</u>	<u>Actual</u>	<u>Over (Under) Budget</u>	<u>Actual</u>
<u>Sources of Financial Resources</u>				
Revenues:				
Permit Application Fees ^{a/}	\$ 229,000	\$ 368,722	\$ 139,722	\$ -
Less Remittance to General Fund	<u>(229,000)</u>	<u>(287,481)</u>	<u>(58,481)</u>	<u>-</u>
Net Revenue	-	81,241	81,241	-
Other Sources:				
Support Appropriations	<u>1,676,229</u>	<u>1,546,707</u>	<u>(129,522)</u>	<u>1,148,776</u>
Total Sources of Financial Resources	<u>\$1,676,229</u>	<u>1,627,948</u>	<u>\$ (48,281)</u>	<u>1,148,776</u>
<u>Uses of Financial Resources</u>				
Expenditures:				
Current:				
Attorney General Services	\$ 242,277	242,277	\$ -	441,522
Other Uses:				
Transfers to Bagley Conservation Fund	<u>1,433,952</u>	<u>1,433,952</u>	<u>-</u>	<u>707,254</u>
Total Uses of Financial Resources	<u>\$1,676,229</u>	<u>1,676,229</u>	<u>\$ -</u>	<u>1,148,776</u>
Net Increase (Decrease) in Operating Clearing During the Year		(48,281)		-
Operating Clearing - July 1		<u>-</u>		<u>-</u>
Operating Clearing - June 30 (Note 5)		<u>\$ (48,281)</u>		<u>\$ -</u>

^{a/} Revenues are not budgeted in the legislative budget bill. The amounts shown on this statement are agency budgeted revenue amounts that are shown in the Governor's Annual Budget.

The notes to the financial statements are an integral part of this statement.

CALIFORNIA COASTAL COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
SPECIAL DEPOSIT FUND

FOR THE FISCAL YEAR ENDED JUNE 30, 1977
(With Unaudited Amounts for 1976)

	<u>1977</u>	<u>1976</u>
<u>Sources of Financial Resources</u>		
Receipts from Federal Government	\$50,000	\$ -
Unclaimed Checks and Deposits	<u>673</u>	<u>-</u>
Total Sources of Financial Resources	50,673	-
<u>Uses of Financial Resources</u>		
Expenditure of Federal Receipts	46,984	-
Transfer to General Fund	<u>-</u>	<u>439</u>
Total Uses of Financial Resources	<u>46,984</u>	<u>439</u>
Net Increase (Decrease) in Fund Balance During the Year	3,689	(439)
Fund Balance - July 1	<u>-</u>	<u>439</u>
Fund Balance - June 30	<u>\$ 3,689</u>	<u>\$ -</u>

The notes to the financial statements are an integral part of this statement.

CALIFORNIA COASTAL COMMISSION
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 1977

1. Formation and Name Change

The California Coastal Commission (CCC) is an outgrowth of the California Coastal Zone Conservation Act of 1972. In November 1972, Californians voted passage of Proposition 20 which created the California Coastal Zone Conservation Commission (CCZCC). This Commission operated until January 1, 1977, when the State's coastal management program was taken over by the California Coastal Act of 1976 (Division 20, commencing with Section 30000 of the Public Resources Code). The 1976 Act created the California Coastal Commission with 15 members rather than the 12 under the CCZCC by adding 3 non-voting ex-officio members. The 1976 Act also established new policies for coastal conservation and development decisions. The fiscal management programs, however, remained unchanged.

2. Summary of Significant Accounting Policies

The accounting policies of the CCC conform to generally accepted accounting principles as contained in the State Administrative Manual.

Bagley Conservation Fund

Subdivision (b) of Section 316 of Chapter 1 of the Statutes of 1971, 1st Extraordinary Session, created the Bagley Conservation Fund and allocated \$40 million of the one-time nonrecurring revenue produced by the enactment of a withholding tax and quarterly estimates of State personal income tax. This money was to be used for beach,

park and land acquisition programs including wildlife areas, development of recreational facilities of a one-time nonrecurring nature and for miscellaneous capital outlay.

Proposition 20 appropriated \$5 million from the Bagley Conservation Fund for the support of the CCZCC. Section 27420 of the Public Resources Code was amended by Chapter 28 of the Statutes of 1973 to provide that the fees and reimbursements collected for permit applications and their appeal were credited to, and were in augmentation of, this appropriation.

The Legislature has augmented the Bagley Conservation Fund several times by appropriating money from the General Fund.

Income:

Throughout the fiscal year, income is accounted on a cash basis. At June 30, the earned but uncollected revenues are accrued.

Prior to January 1, 1977, revenue was appropriated to and expended from the Bagley Conservation Fund. After January 1, 1977, revenue was forwarded to the General Fund and accounted for in that fund by the State Controller.

Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis. Valid expenditure commitments are accrued as accounts payable at June 30.

Through December 31, 1976, support expenditures were accounted through Proposition 20 of the 1972 general election.

Beginning January 1, 1977, and through the termination of the state fiscal year on June 30, 1977, expenditures were made from the money appropriated under subdivision (a) of Section 5 of Chapter 1440 of the Statutes of 1976.

General Fund

The CCC accounts for only its portion of the State's General Fund. Central accounts for the General Fund are maintained by the State Controller and annual consolidated statements are published by that office.

Income:

Throughout the fiscal year, income is accounted on a cash basis. At June 30, the earned but uncollected revenues are accrued.

Expenditures:

During the fiscal year, expenditures are accounted on a claims filed (with the State Controller) basis. Valid expenditure commitments are accrued at June 30.

Special Deposit Fund

Monies received or collected by a state agency for specific purposes for which no fund has been created in the State Treasury are accounted for in the Special Deposit Fund. Separate fund accounts for each agency are maintained by the State Controller and consolidated Special Deposit Fund statements are published by that office. Income and expenditures for the Special Deposit Fund are accounted in the same manner as those for the General Fund.

Liabilities

Retirement Plan: Regular employees of the CCC are members of the Public Employees' Retirement System (PERS) which is a defined benefit, contributory retirement plan. The amount the agency and employees contribute to PERS is actuarially determined under a program in which contributions plus retirement system earnings provide the necessary funds to pay retirement costs as accrued. Retirement contributions for the year included in the expenditures-personal services account were \$230,934.

Vacation and Sick Leave: The State does not record the costs of vacation and sick leave at the time the benefits are accumulated. At the time of usage, the expenditures-personal services account is charged.

General Fixed Assets

Purchases of equipment are recorded as expenditures in the year of acquisition. The aggregate cost, with the exception of certain nonexpendable equipment items not on the State Administrative Manual equipment list, is capitalized in the General Fixed Assets account group. Nonexpendable equipment, generally valued at \$150 or over with a useful life of two years or more, is recorded at original cost or, if not available, at fair market value.

3. Accounts Payable

Accounts payable include all unpaid liabilities for goods and services received as of June 30. Accordingly, they also include liabilities for which disbursement requests were submitted to the State Controller by June 30, but which had not been paid as of that date.

4. Encumbrances Outstanding

Encumbrances outstanding include all valid commitments against budget appropriations for which no goods or services had been received by June 30.

5. Operating Clearing

These accounts are the connecting links between the California Coastal Commission's portion of the Bagley Conservation Fund and the General Fund and the control accounts for these funds maintained by the State Controller. The account balances at June 30 represent clearing accounts between the Commission and the State Controller.

COMMENTS AND RECOMMENDATIONS

Internal Accounting Control

As part of our examination, we made a study of the California Coastal Commission's system of internal accounting control to the extent we considered necessary to evaluate the system as required by generally accepted auditing standards. Under these standards, the purposes of such evaluation are to establish a basis for reliance on the system of internal accounting control in determining the nature, timing and extent of other auditing procedures that are necessary for expressing an opinion on the financial statements and to assist in planning and performing the examination of the financial statements.

The objective of internal accounting control is to provide reasonable, but not absolute, assurance as to (1) the safeguarding of assets against loss from unauthorized use or disposition and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of a system of internal accounting control should not exceed the benefits derived and also recognizes that the evaluation of these factors necessarily requires estimates and judgments by management.

There are inherent limitations that should be recognized in considering the potential effectiveness of any system of internal accounting control. In the performance of most control procedures, errors can result from misunderstood instructions, mistaken judgment, carelessness or other

personal factors. Control procedures whose effectiveness depends upon segregation of duties can be circumvented by collusion. Similarly, control procedures can be circumvented intentionally by management either with respect to executing and recording transactions or with respect to the estimates and judgments required in preparing financial statements. Further, projection of any evaluation of internal accounting control to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions and that the degree of compliance with the procedures may deteriorate.

Our examination of the financial statements was made in accordance with generally accepted auditing standards. This included studying and evaluating the California Coastal Commission's system of internal accounting control for the year ended June 30, 1977. This study and evaluation was designed for the purposes set forth in the first paragraph of this section of the report and would not necessarily disclose all weaknesses in the system because it was based on selective tests of accounting records and related data. However, such study and evaluation disclosed the following conditions which we believe to be weaknesses.

Separation of Duties in Personnel Is Inadequate

The Commission has inadequately separated duties in regard to processing personnel documents and handling and distributing salary warrants as required in Section 8580.1 of the State Administrative Manual.

Recommendation: The Commission separate duties of processing personnel documents and handling and distributing salary warrants as required in Section 8580.1 of the State Administrative Manual.

Property Accounting Needs Strengthening

Accountability for property transactions needs strengthening.

Comments and recommendations follow:

Equipment Records

The CCC does not maintain a current equipment property ledger or property cards for all items of equipment.

Recommendation: Property ledger be prepared and maintained as prescribed in Section 8654.1 of the State Administrative Manual.

Property Reconciliations

The CCC does not prepare a monthly (or quarterly) reconciliation of equipment expenditures from current appropriations with additions of major property.

Recommendation: Property reconciliations be prepared as prescribed by Section 7923 of the State Administrative Manual.

Physical Inventory Count

The CCC has not taken a physical inventory of its equipment since formation in 1972.

Recommendation: Physical inventories of equipment be made once every three years as prescribed in Section 8659 of the State Administrative Manual.

The foregoing conditions were considered in determining the nature, timing and extent of audit tests to be applied in our examination of the financial statements, and this presentation of such conditions does not modify our opinion on such financial statements.

AUDIT ADJUSTMENTS

The aforementioned financial statements contain adjustments to the following accounts:

- Accounts Receivable
- Accounts Payable
- Encumbrances Outstanding
- Reserve for Uncleared Collections
- Operating Clearing
- Revenue
- Appropriation Expenditures.

The adjustments were necessary to correct the Commission's financial statements. The Commission concurred with the suggested journal entries and accordingly adjusted the financial records to reflect those adjustments.

California Coastal Commission
631 Howard Street, 4th floor
San Francisco, California 94105
(415) 543-8555

February 13, 1979

Samuel E. Hull, Chief
Joint Revenue Sharing Task Force
Office of the Auditor General
1025 P Street, Room 260
Sacramento, CA 95814

Dear Mr. Hull:

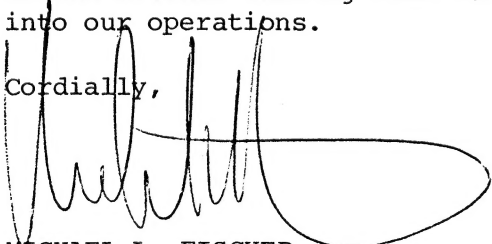
We have reviewed your final audit report for the year ended June 30, 1977, and have found it to be helpful to us in better managing our financial resources. Because your comments and recommendations were provided to us informally during the audit and immediately following its conclusion by your auditor, Ms. Phyllis Ries, I am happy to say that all of the necessary changes have already been implemented or are in the process of being implemented.

Your first recommendation was carried out when a letter was sent by our Personnel Officer to regional offices in July, 1978 instructing them to have a person other than the attendance clerk distribute payroll warrants. The same policy was put into effect for the State Office.

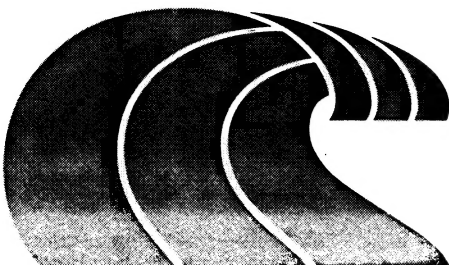
The deficiencies in our property accounting practices were also noted by Ms. Ries and a complete physical inventory and updating of property cards was begun immediately after conclusion of the audit, with the help of a temporary graduate student assistant. The inventory and property record updating was completed in December 1978 and will hereafter be maintained by our accounting office. A reconciliation will be prepared quarterly and periodic rotating inventories will be made of regional offices.

I wish to thank you and your staff, particularly Ms. Ries, for the assistance we have received in improving our operations. I feel that the proper accounting for the State's resources placed under my custodianship is one of the most important responsibilities charged to me as a State program manager. Periodic audits by independent groups, such as the Revenue Sharing Task Force, are welcomed as a way of bringing outside insights into our operations.

Cordially,



MICHAEL L. FISCHER
Executive Director



Office of the Auditor General

cc: Members of the Legislature
Office of the Governor
Office of the Lieutenant Governor
Secretary of State
State Controller
State Treasurer
Legislative Analyst
Director of Finance
Assembly Office of Research
Senate Office of Research
Assembly Majority/Minority Consultants
Senate Democratic/Republican Caucus
California State Department Heads
Capitol Press Corps